# INDONESIA

## TRADE SUMMARY

In 1999, the U.S. trade deficit with Indonesia was approximately $7.6 billion, an increase of $528 million from the U.S. trade deficit of just over $7.0 billion in 1998. U.S. merchandise exports to Indonesia were approximately $1.9 billion, a decrease of $352 million (15.4 percent) from the level of U.S. exports to Indonesia in 1998. Indonesia was the United States' 39th largest export market in 1999. U.S. imports from Indonesia were $9.5 billion in 1999, an increase of $176 million (1.9 percent) from the level of imports in 1998. The stock of U.S. foreign direct investment (FDI) in Indonesia in 1999 was about $6.9 billion, an increase of 4.0 percent from the level of U.S. FDI in 1998. U.S. FDI in Indonesia is concentrated largely in the petroleum, manufacturing and financial sectors.

## OVERVIEW

After two years of economic and political turmoil, conditions in Indonesia began to stabilize in 1999. According to U.S. Embassy reporting, real gross domestic product (GDP), which fell by 13.2 percent in 1998, grew by approximately 0.10 percent in 1999. Indonesia still faces daunting economic problems with a non-functioning banking system and massive corporate debt overhang. A number of positive political developments in 1999 created preconditions for restoring economic growth. These included a peaceful and credible general election in June 1999 followed by the open and transparent selection of a new president in October 1999. The new government of President Abdurrahman Wahid has pledged to accelerate economic reforms, including liberalization of its trade regime and efforts to address widespread corruption. However, the Indonesian government's commitment to implementing these reforms remains to be demonstrated through concrete action.

Early in the economic crisis, the government of Indonesia turned to the International Monetary Fund (IMF) for assistance. Since late 1997, IMF-motivated economic reform programs have been the focus of internal restructuring and reform. However, implementation of these reforms has been erratic. In September 1999, the IMF suspended payments to Indonesia until the government demonstrated that it had investigated seriously a campaign finance scandal involving a wide range of political elites with ties to the ruling Golkar party. At the same time, controversy surrounded the alleged improper conduct of senior officials of the Indonesian Bank Restructuring Agency (IBRA), which is charged with restoring Indonesia's devastated banking sector to health. With a new government in place and the belated release of an independent audit of the scandal in November 1999, the IMF began negotiations on a new Memorandum on Economic and Financial Policies ("MEFP"), which was signed on January 20, 2000.

The MEFP establishes a range of additional economic reforms to address the challenges to long-term stabilization facing Indonesia. During the three-year term of the program, the Indonesian government is to undertake specific actions in four broad areas: macroeconomic reform; bank and corporate restructuring; rebuilding economic institutions; and improved natural resource management. These commitments, if implemented as planned, could help to further liberalize the Indonesian market and address a range of concerns identified by U.S. companies.

Major concerns recently articulated by U.S. industry include: the absence of a transparent and predictable regulatory environment, including with respect to the issuance of licenses and administrative rules; and arbitrary and inconsistent interpretation and enforcement of laws by governmental authorities and entities, including with respect to intellectual property protection. Other problems include widespread corruption and an ineffective judicial system which frustrates the effective enforcement of contracts and intellectual property rights. Commercial dealings in Indonesia are impaired by a host of uncertainties, including: an underdeveloped legal system that makes negotiation of credit facility documents difficult; laws that only provide for guarantees and not security interest to property; non-existent credit reporting; and underdeveloped capital markets.

**IMPORT POLICIES**

As of January 1999, 59.4 percent of Indonesia's tariff lines were assessed import duties ranging between zero and five percent.  Following tariff rate reductions on 232 tariff lines, Indonesia's average unweighted tariff is 8.9 percent in 1999, compared to 20 percent in 1994.  As part of the January 1998 IMF program, Indonesia committed to reduce tariffs and eliminate all existing non-tariff barriers, except those established for health or safety reasons, by the end of the program period in November 2001. In the MEFP, Indonesia committed to establish by the end of 2003 a three-tier tariff structure (zero, five and ten percent) for all goods, except automobiles and alcoholic beverages.

In the Uruguay Round market access negotiations, Indonesia committed to bind 94.6 percent of its tariff schedule and most tariffs are bound at 40 percent.  Products for which tariff bindings exceed 40 percent include automobiles, iron, steel, and some chemical products. Indonesia has committed to remove import surcharges on items bound in the Uruguay Round by the year 2005.  In accordance with the WTO Agreement on Agriculture, Indonesia agreed to eliminate non-tariff barriers on agricultural products, and replace them with tariffs.  Agricultural products are subject to the general 40 percent tariff binding; although products that are not covered by this binding are amongst the most sensitive and heavily protected sectors.  Local content regulations on dairy products were eliminated on February 1, 1998.

Indonesia appears to have complied with the July 1998 ruling by the WTO Appellate Body which found certain Indonesian practices and policies affecting the automotive sector to be inconsistent with WTO rules (see "Automotive Policies" below).  In June 1999, the Indonesian government announced a new national automotive policy that reduces and rationalizes tariff levels on automobiles and automobile kits, and removes restrictions on the volume and types of motor vehicles that can be imported.

**Quantitative Restrictions**

Prior to the conclusion of Indonesia's initial stabilization program with the IMF in 1997, the sole importer and distributor of major bulk food commodities, such as wheat, rice, sugar, and soybeans, was the National Logistics Agency (BULOG), a state trading entity.  Prices for these commodities were often higher than world market prices, despite being heavily subsidized. Pursuant to IMF-mandated reforms, effective September 1998, the role of BULOG was sharply curtailed.  BULOG's major remaining responsibility is to maintain the country's rice stabilization program.  However, in late 1999, the government further minimized BULOG's role by removing and replacing its temporary monopoly over importation on imports of rice with a temporary tariff of 430 Rupiah per kilogram (which corresponds to an effective tariff rate of 30 percent, based on January 2000 exchange rates).  Under the MEFP, the government is committed to reviewing this tariff after six months.  In conjunction with the minimization of BULOG's authority and role, private companies have been permitted to import rice, wheat, wheat flour, soybeans, garlic, and sugar.  The government removed all tariffs on these items, with the exception of most forms of sugar for which tariffs have been reduced to the 20-25 percent range.

In the MEFP, Indonesia reaffirmed its commitment to phase out all quantitative import restrictions (except those established by international agreement) by November 2001. Remaining quantitative restrictions apply to wines and distilled spirits, of which the majority of imports are allocated for duty-free stores. This system substantially limits the availability of wine and spirits offered for sale in the domestic market.

**Import Licensing**

The government continues to reduce the number of products subject to import restrictions and special licensing requirements. For example, approximately 160 tariff lines are subject to import licensing restrictions, which is a concrete reduction from 261 tariff lines in 1994, and 1,112 tariff lines in 1990. However, U.S. companies remain concerned over Indonesia's license and quota system which appears to operate as a *de facto* import ban on motorcycles, and results in strict limits on the importation of other products, such as wine and films.

For imported goods that continue to be regulated, import licenses for specific categories of products are allocated to certain types of importers, as follows (the number of tariff lines within a product category for which licenses are required are reflected in parentheses): "registered importers" are eligible to seek licenses to import alcoholic beverages (27 lines) and hand tools (6 lines); "producing importers" are eligible to seek licenses to import artificial sweeteners (3 lines), propylene granules (2 lines), engines and pumps (5 lines), tractors (3 lines), knocked-down electronic keyboards (1 line), and scrap materials (57 lines); Pertamina, the state oil company, alone may import lube oil (3 lines); and PT Dahana, a state-affiliated company, alone may import explosives (4 lines).

**STANDARDS, TESTING, LABELING AND CERTIFICATION**

A May 1990 decree requires that the Ministry of Health respond to applications to register new, foreign pharmaceuticals within one year of receipt of an application. In practice, however, the registration process takes much longer. Foreign pharmaceutical firms have complained that the pace of registration approvals slowed considerably during 1999 due to administrative backlogs at the Ministry. Infringing pharmaceutical products sometimes become available in the local market before legitimate products are registered and approved for sale.

Revised maximum pesticide residues (MRLS) for all food commodities were announced in August 1996. While these MRLS appear to be consistent with Codex Alimentarius standards, Indonesia's implementation of proposed shipment-by-shipment certification procedures could prove to be administratively burdensome. U.S. industry reports that every four years all foods, including distilled spirits, must undergo a costly, complex, and non-transparent certification review managed by the Ministry of Health. New food labeling regulations were issued in July 1999 and will take effect July 2000. These regulations require all foods to be labeled in the Indonesian language and to bear an expiration date.

**GOVERNMENT PROCUREMENT**

Indonesia is not a party to the WTO Government Procurement Agreement. The current Indonesian law on government procurement was enacted in 1994. Most large government contracts are financed by bilateral or multilateral donors, each of which imposes its own procurement requirements. For large, government-funded projects, international competitive bidding practices must be followed. The government seeks concessional financing for most procurement projects, which includes a 2.5 percent interest rate, a 25-year repayment period, and a seven-year grace period. Since the fall of the Soeharto government in May 1998, there have been a number of investigations of possible procurement and contracting irregularities in response to domestic demands to eradicate corruption, collusion, and nepotism. In late 1999, pursuant to IMF-mandated reforms, the Indonesian government undertook audits of the state-owned electricity company (PLN), the state oil and gas company (Pertamina), and the State Logistics Agency (BULOG). Irregularities in procurement procedures were identified as major problems, and these organizations will be audited again during 2000. The audit effort will gradually be expanded to encompass other major state enterprises.

Foreign firms bidding on high value government-sponsored construction or procurement projects are periodically asked to purchase and export the equivalent value in selected Indonesian products. Government departments, institutes, and corporations are expected to utilize domestic goods and services to the maximum extent feasible, with the exception of foreign aid-financed goods and services procurement projects. State-owned enterprises that publicly offer shares through the stock exchange are exempted from government procurement regulations. Pertamina regulates the imports of all materials for use by the oil and gas sector.

In January 1998, the Indonesian government issued a presidential decree regulating cooperation between the government and the private sector in the provision and/or management of new infrastructure projects. The decree requires that infrastructure projects, including independent power projects, be publicly tendered on a competitive basis rather than negotiated with a single preferred company. The decree also requires the legitimate use of intellectual property in projects.

**EXPORT SUBSIDIES**

Since 1992, the Indonesian government has offered rediscount facilities for "special exporters." The program had previously been restricted to certain industries; however, in January 1999, its coverage was extended to qualifying exporters from any industry. Exporters may sell their export letters of credit or other instruments to the central bank, Bank Indonesia (BI), through foreign exchange banks. BI rediscounts the export drafts at the SIBOR rate for special exporters, and one percent above SIBOR for general exporters. The program lapsed in 1999 amidst administrative disagreements between Bank Indonesia and the Ministry of Finance, and has not been renewed. The government also maintains several credit programs that provide subsidized loans, primarily to agriculture and small and medium businesses. The entire structure of subsidized credits is undergoing significant change as economic reforms proceed.

Manufacturing companies which export 65 percent of their production for export may apply for restitution of import duties paid on inputs that are subsequently re-exported in a finished form. Duty exemptions may also be granted for capital equipment, machinery, and raw materials needed for the initial investment. Companies located in bonded or export-processing zones pay no duty until the portion of production destined for the domestic market is released, at which time duty is owed only on that portion.

**INTELLECTUAL PROPERTY RIGHTS PROTECTION**

Under the "Special 301" provisions of the 1988 Omnibus Trade and Competitiveness Act, the U.S. Trade Representative raised Indonesia to the "Priority Watch List" in 1996, from the "Watch List" where it had been since 1989. Indonesia remained on the "Priority Watch List" through 1999. Intellectual property rights (IPR) laws in effect as of the end of 1999 do not appear to be fully compliant with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The Indonesian government prepared draft legislation in the areas of trade secrets, industrial design and integrated circuits, as well as amendments to existing patent, trademark and copyright laws, in order to meet the January 1, 2000 deadline for TRIPS compliance. The Indonesian Parliament did not act on these proposals in 1999; however, the Indonesian government resubmitted the legislation to Parliament in February 2000.

IPR protection shortcomings mentioned by industry include: rampant software, audio, and video disk piracy; pharmaceutical patent infringement; apparel trademark counterfeiting; an inconsistent and ineffective IPR enforcement regime; and an ineffective legal/judicial system. The Indonesian government has on several occasions responded to U.S. companies that raise specific complaints about IPR infringement, however the judicial process and remedies cannot be relied upon to enforce intellectual property rights or to deter future violations. The lack of effective IPR protections and enforcement serves as a considerable disincentive for foreign investment in high technology projects in Indonesia. Indonesia is a member of the World Intellectual Property Organization (WIPO) and has acceded to numerous international conventions on intellectual property. These include the Paris Convention for the Protection of Industrial Property; the Berne Convention for the Protection of Literary and Artistic Works (with a reservation on Article 33), the WIPO Copyright Treaty, the Patent Cooperation Treaty; the Trademark Law Treaty, the Nice Agreement for the International Classification of Unclassified Goods and Services, and the Strasbourg Agreement Concerning the International Patent Classification.

**Copyrights**

In 1997, Indonesia enacted amendments to its copyright law that brought it into closer conformity with international standards for copyright protection. The law presently includes provisions which establish a rental right in the areas of audiovisual, cinematographic, and computer software, which are protected as literary works. The law also accords licensing rights, new protections for neighboring rights in sound recordings, and rights of producers of phonograms. It also increased the term of protection for many copyrighted works to 50 years, as required by the TRIPS Agreement. A bilateral copyright agreement between the United States and Indonesia that entered into force in August 1989 extended national treatment for copyright protection to works created by citizens of each country.

The Indonesian government periodically steps up enforcement efforts against copyright piracy and consults with copyright holders and associations in order to prioritize its efforts. Nevertheless, Indonesia's overall record for copyright enforcement is poor. Since 1996, piracy of video compact disks (VCDs) in Indonesia has been rampant, which has disrupted the market for cinemas and for the sale and rental of legitimate products. Periodic raids result in the seizure of sizable amounts of pirate optical disk (OD) products; many of which were detected and seized as they were about to be exported. However, none of these cases resulted in meaningful penalties on pirates, or even permanent impoundment of equipment used to manufacture pirated products. With the increased political turmoil in the second half of 1999, IPR enforcement once again took a back seat with law enforcement authorities that were consumed with civil unrest and the maintenance of public order. According to U.S. industry estimates, total annual losses from copyright piracy in Indonesia during 1999 exceeded $170 million.

**Patents**

Indonesia's first patent law went into effect on August 1, 1991. The amended law, enacted in 1997, improved patent protection in key respects. The term of protection has been extended to 20 years with a possible two-year extension. The amendments provided that a patent is subject to cancellation only in the event the patent holder fails to pay annual fees within specified periods. Unauthorized use of a product or process invention that is the subject of a pending application constitutes patent infringement. Indonesia provides product patent protection for foods and beverages.

Some aspects of Indonesia's patent law confer rights which are not required by the TRIPS Agreement. For example, the definition of the term "patent examiner" was expanded to include examiners in other industrial property offices. This could facilitate work-sharing in the search and examination process. Also, the exclusion from patentability for plant and animal varieties was rescinded. The Indonesian government is now drafting a specific law to protect animal and plant varieties.

Unfortunately, some of the problems in the previous law which were not corrected by the 1997 amendment have presented new problems. Importation still does not appear to satisfy the requirement that a patent holder must "work" or exploit the invention domestically. The right to prevent importation of products made by patented processes is available only if the process is also worked in Indonesia. The rules on content of voluntary patent licenses appear to be more restrictive than is permitted by the TRIPS Agreement. Moreover, government use of patented inventions is an additional concern. Inventions that are contrary to Indonesian laws and regulations are excluded from patentability, and the standard for excluding inventions contrary to the public interest appears to be inconsistent with TRIPS requirements.

**Trademarks**

The April 1993 trademark law provides for determination of trademark rights by priority of registration, rather than by priority of commercial use. The law provides for protection of well-known marks, but offers no administrative procedures or legal basis by which legitimate owners of well-known marks can cancel pre-existing registrations. Currently, the only avenue for challenging existing trademark registrations in Indonesia is to bring a court challenge, which is an unreliable and burdensome undertaking which must be initiated within five years from the date of the disputed registration. U.S. companies have found it difficult to protect their well-known marks, since judicial and administrative processes can be very time-consuming and unreliable. Injunctive relief is not provided, even when a lower court invalidates false trademark registrations.

The 1997 amendments to the trademark law enhanced protection by providing for administrative cancellation of registrations competing with well-known marks. However, as a practical matter, rights-holders continue to have difficulty enforcing this provision, either administratively or judicially.

**New Technologies and Trade Secrets**

Biotechnology and integrated circuit layout designs are not protected under current Indonesian law; however, the government has prepared and presented to the parliament legislation concerning trade secrets, industrial designs, and integrated circuits. Action on the legislation is expected in early 2000.

## SERVICES BARRIERS

Despite relaxation of some restrictions, particularly in the financial sector, services trade barriers to entry continue to exist in many sectors. Foreign accounting firms must operate through technical assistance arrangements with local firms, and citizenship is a requirement for licensing as an accountant. Foreign agents and auditors may act only as consultants and cannot sign audit reports. Foreign law firms cannot establish a legal practice in Indonesia. Indonesian citizenship, as well as graduation from an Indonesian legal facility or other recognized institution, is required for admittance to the bar. Foreign consulting engineers can operate only by forming a joint venture with local partners in Indonesia.

**Distribution**

Indonesia has been gradually liberalizing the distribution services sector, and its agreement with the IMF calls for elimination of restrictions on trade in the domestic market. In February 1998, restrictive marketing arrangements for cement, paper, cloves and other spices, and plywood were eliminated. Indonesia is also opening the wholesale and retail trade sectors to foreign investment. In September 1998, the government issued a decree eliminating the former 49 percent ceiling on foreign equity and allowing up to 100 percent foreign equity in the distribution and retail sectors.

The state oil and gas company, Pertamina, controls all refining, distribution and marketing of final products to consumers. The Indonesian government, however, has committed to deregulate the downstream sector in 2000.

Indonesia's Hardwood Plywood Marketing Board (APKINDO) was abolished as a marketing cartel on February 1, 1998. There are no longer any restrictions on pricing, product mix or shipping arrangements, which could result in increased opportunities to U.S. exporters of panel products.

**Financial Services**

In the December 1997 WTO Financial Services Agreement, Indonesia committed to allow 100 percent foreign ownership for non-bank financial companies that are publicly listed, including insurance and securities firms. The government also guaranteed the access of existing financial services firms in its market. Restrictions on joint venture banks, where the foreign ownership limit was 85 percent, were retained in the WTO offer. Multi-finance companies with foreign partners are required to deposit 100 percent more paid-in capital than domestically owned multi-finance companies. However, in November 1998, amendments to the 1992 banking law were enacted which allow 100 percent foreign ownership of Indonesian banks. All insurance policies in Indonesia must be purchased from either a domestic or joint venture company. The only exceptions to this requirement are where specific coverage is unavailable in Indonesia or where the insured is a wholly foreign owned entity.

**Banking**

As of January 2000, the Indonesian government had completed recapitalization of most private banks, but only one of the four remaining state-owned banks. That institution, Bank Mandiri, was formed through the merger of four of the largest failed state-owned banks. The government has stated that it will re-privatize IBRA-controlled Bank Central Asia sometime in the first half of 2000. The government allowed banks to begin selling their recapitalization bonds in February 2000. Restrictions on branching and sub-branching for joint venture banks and foreign branches were lifted in 1998.

**Securities**

In 1998, the government removed restrictions on foreign ownership of securities firms, pursuant to Indonesia's commitments under the WTO Financial Services Agreement.

**Audio-Visual**

Indonesia prohibits foreign film and videotape distributors from establishing branches or subsidiaries. Under the Film Law, provision of importation and distribution services is reserved to 100 percent Indonesian-owned companies. Importation and in-country distribution of U.S. films must be handled through a single organization, the European and American Film Importers' Association (AIFEA). Duties, taxes, licensing, and other necessary payments also act as barriers to the film industry. In October 1999, the government abolished the Ministry of Information, which had previously regulated market access for foreign motion pictures. Some of the functions of the former ministry will be vested in a sub-cabinet agency; however, as of January 2000, it is unclear how regulatory responsibility for films will ultimately be redistributed.

**Telecommunications Services**

Indonesia's commitments under the WTO Basic Telecommunications Agreement were modest. The government committed to a maximum foreign investment limit of 35 percent for telecommunications services companies, but did adopt the WTO Reference Paper on pro-competitive regulatory principles.

Indonesia's new telecommunications law will take effect on September 8, 2000, and will permit local and foreign companies to enter Indonesia's telecommunications sector when PT Indosat and Satelindo lose exclusive rights for international calling service in 2004; and when PT Telkom loses its monopoly over domestic long distance service in 2005 and local fixed line service in 2010. Potential investors may enter those markets earlier by purchasing market entry rights from Telkom, Indosat or Satelindo.

**INVESTMENT BARRIERS**

The Indonesian government is interested in attracting and increasing foreign investment in the country, which it hopes to accomplish by reducing burdensome bureaucratic procedures and other requirements on foreign investors. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of five percent. In 1998, the government opened several previously restricted sectors to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, roads, and water supply. Some sectors remain restricted or closed to foreign investment and are implemented through a "negative list." The most recent version of the negative list was issued in July 1998 and includes television and radio broadcasting, theatrical exhibition, and both film and video distribution.

Foreign capital investment is primarily governed by the Foreign Capital Investment Law, as well as by presidential and ministerial decrees. The Capital Investment Coordinating Board (BKPM) and other relevant agencies must approve all proposed foreign-manufacturing investments in Indonesia. Obtaining the required permits, however, can be cumbersome and time-consuming, as BKMP lacks centralized authority to issue such permits, requiring investors to deal with considerable red tape. For example, investment in petroleum extraction, mining, forestry, and banking is covered by specific laws and regulations which are administered by various specialized technical agencies, rather than BKMP. Joint ventures with a majority Indonesian share, or in which Indonesians own 45 percent of shares with at least 20 percent of total stock sold through the Indonesian stock market, are treated as domestic companies for certain purposes. This arrangement provides the ability to borrow short-term working capital in Rupiah from state banks.

In 1996, the Indonesian government issued a regulation under which tax exemptions may be provided to certain companies. This "tax holiday" was originally conceived of as a way to attract large investments, which Indonesia believed it was losing to other countries in the region maintaining more attractive tax incentives. The program was never fully implemented, however, and the government is in the process of revising its investment incentive regime. In the MEFP, the Indonesian government committed to rationalizing its policies toward tax holidays and tax-free zones, and to eliminate "unnecessary" exemptions to the value-added tax (VAT).

The former Administration's attempt to nullify government contracts with the foreign-backed independent power producers (IPPs) have been a concern since the beginning of the economic crisis. The previous government demonstrated little willingness or ability to have PLN (the state-owned power company) to renegotiate its contracts in good faith. The new government of President Wahid has taken concrete steps to resolve these disputes. Investors view these cases as an important sign of how FDI will be treated. Their successful resolution is important to establishing an attractive investment climate.

**Trade-Related Investment Measures**

In 1995, pursuant to the WTO Agreement on Trade-Related Investment Measures (TRIMS), Indonesia notified the maintenance of local content requirements to promote investment in a several sectors, including the fresh milk and cream, utility boiler equipment, and soybean cake industries. Proper notification allowed developing-country WTO members to maintain such measures for a five-year transitional period, ending January 1, 2000. Indonesia eliminated measures applicable to soybean cake in 1996 and to dairy products in 1998. However, as of late February 2000, Indonesia had not completed steps necessary to rescind TRIMS affecting boilers despite the January 1, 2000 deadline. The United States is working in the WTO to ensure that WTO members meet these obligations.

**Automotive Policies**

In 1997, the United States, Japan and the European Union challenged Indonesia's programs to promote a "national car" industry under WTO dispute settlement rules. The WTO dispute settlement panel found that Indonesian local content requirements and subsidies set forth under separate programs promulgated in 1993 and in 1996 violated Articles I and III of the GATT and Article 2 of the Agreement on Trade-Related Investment Measures (TRIMS). In order to comply with the WTO ruling, on June 24, 1999, the Indonesian government announced a major revision of its national automotive policies. The Indonesian government says its new policy is designed to use "market forces" to foster a more efficient and globally competitive Indonesian automotive industry, in particular, a component sector geared to supply both local and foreign manufacturers.

The new policy eliminates tariff and tax incentives for local content from the now defunct 1993 and 1996 "national car" policies. The Indonesian government substantially lowered tariff rates in all market segments for motor vehicles. The maximum tariff has been reduced from 200 to 80 percent. Tariffs on kits imported for assembly, which had ranged from zero to 65 percent, are now a flat 25 percent for all but passenger cars, which are 35, 40 or 50 percent depending on engine size. The tariff schedule for auto components and parts imported for local assembly has also been simplified to a flat rate 15 percent for imported parts for passenger cars and minivans. Like tariffs, luxury taxes have generally been lowered across the board. The Indonesian government has also lifted the previous regulations under which only registered importers or sole agents of foreign automakers could import vehicles. The current policy framework permits any licensed general importer to import automobiles without special permission, and relaxes certain regulations related to bonded warehouse zones for the automotive industry.

It has been reported in late 1999 and early 2000 that the Indonesian government supports, and may be actively working to promote, revival of a national auto policy or other efforts to recoup sunk investment or redeploy assets in PT Timor Putra Nasional, the beneficiary of the former, WTO-inconsistent auto policies. It has also been reported that the government was considering restrictions on the importation of "luxury" vehicles. The United States is concerned by these reports and will continue to scrutinize closely developments in the Indonesian auto sector that could lead to WTO-inconsistent policies or backsliding on WTO or international financial institution-related commitments.

## ELECTRONIC COMMERCE

While there has been a proliferation of Internet service providers in recent years, the growth of electronic commerce in Indonesia is still hindered by a number of factors. These include: the limited availability of access to fixed land lines controlled by the monopoly domestic telecommunication provider; a low level of computer ownership, by both business and individuals; and the lack of a regulatory infrastructure to support electronic commerce. In particular, U.S. industry has identified the lack a legal framework for ensuring security of on-line transactions as a major impediment to the growth of electronic commerce.

## OTHER BARRIERS

### Transparency

A pervasive lack of transparency and corruption are significant problems for companies doing business in Indonesia. Corruption remains a problem for foreign companies doing business in Indonesia. Demands for "facilitation fees" to obtain required permits or licenses, government awards of contracts and concessions based on personal relations, and a legal system that is often perceived as arbitrary are frequently cited problems. Much of the substantial deregulation introduced since late 1997 and popular demands for investigations into corrupt, collusive, and nepotistic practices are aimed at tackling some of the problems which either countenance these problems or which have arisen from them.

The Indonesian government has stepped up its efforts to address these concerns. The most visible action was the passage of Law No. 28/1999 designed to tackle corruption among government officials. This law provides for stiffer penalties for corruption as well as for an independent commission with the power to investigate and audit the wealth of senior government officials including political appointees. The law came into effect in November 1999 and the government was still in the process of forming the independent commissions in January 2000. In the MEFP, the government stated that the Attorney General would establish a joint investigating team to investigate and prosecute corruption within the court system.